

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AGRE-00 AID-05 EB-08 IGA-02 OMB-01

TRSE-00 L-03 CIAE-00 INR-07 NSAE-00 /039 W

-----017609 011436Z /44

R 010843Z DEC 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 7882

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PASS: USDA/OGSM AND AID

E.O. 11652: N/A

TAGS: EAID, EAGR, KS

SUBJ: ROKG REQUEST FOR LONG TERM PL-480 AND CCC CREDIT AGREEMENTS

REF: SEOUL 10049

SUMMARY: NAM'S REQUEST FOR A LONG-TERM AGRICULTURAL MARKETING AGREEMENT, TOGETHER WITH A COMBINATION OF PL-480 AND CCC THREE YEAR CREDIT ARRANGEMENT, PROVIDES US WITH AN OPPORTUNITY TO MAINTAIN OR DOMINANT MARKET SHARE FOR KROEA'S AGRICULTURAL IMPORTS AND LAY THE BASIC FOR CONTINUED GROWTH. IN ADDITION, FUNDS WOULD BE PROVIDED TO MEET GROWING SOCIAL AND ECONOMIC DEVELOPMENT NEEDS AT A TIME WHEN THE ROKG IS FACED WITH SEVERE BUDGETING CONSTRAINTS AS A RESULT OF INCREASED MILITARY SPENDING. END SUMMARY.

1. THE EMBASSY BELIEVES THAT FULL AND FAVORABLE CONSIDERATIONS SHOULD BE GIVEN TO THE ROKG REQUEST FORWARDED REFTEL. PL-480 AND CCC CREDITS SALES HAVE BEEN CRUCIAL TO THE DEVELOPMENT OF A HIGHLY FAVORABLE US MARKET FOR GRAINS AND OTHER AGRICULTURAL PRODUCTS IN KOREA AND MAY BE NECESSARY FOR THE INTERMEDIATE TERM TO MAINTAIN OUR POSITION IN THE UFACE OF RISING COMPETITION.

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2. THE US HAS HAD AN ENVIABLE 79 PERCENT SHARE OF KOREA'S AGRICULTURAL IMPORT MARKET NOW ESTIMATED AT NEARLY \$1.4 BILLION IN 1977 THE VALUE OF OUR AGRICULTURAL EXPORTS HAS GROWN FROM \$360 MILLION IN 1972 TO AN ESTIMATED \$950 MILLION IN 1977. IN 1976 WE DOMINATED THE IMPORT MARKET FOR WHEAT (99.9 PERCENT),

SOYBEANS (98.7 PERCENT), COTTON 97.2 PERCENT) AND CORN (88 PERCENT). THIS MARKET POSITION HAS NOT BEEN LOST ON OTHER MAJOR PRODUCERS AS CANADA AND AUSTRALIA WHO ARE WORKING HARD TO PENETRATE IT. WE HAVE REPORTS THAT THE ROKG HAS BEEN OFFERED UP TO 15 YEAR CREDITS TO CRACK OUR POSITION.

3. NAM'S LETTER PROVIDES US WITH AN EXCELLENT OPPORTUNITY TO SIGN A LONG-TERM SALES AGREEMENT WHICH WOULD ENABLE US TO RETAIN OUR MARKET POSITION. THE WHEAT MARKET IS EXPECTED TO GROW ONLY 3.2 PERCENT AND COTTON AT 18 PERCENT OVER THE NEXT FIVE YEARS WHILE IMPORTS OF CORN AND SOYBEANS IS PROJECTED TO ADVANCE BY 63 PERCENT IN QUANTATIVE TERMS. SINCE, IN FACT, COTTON AT 80.8 PERCENT AND WHEAT AT 31.2 PERCENT COMPROMISE THE BULK OF OUR AGRICULTURAL EXPORTS HERE WE CANNOT COUNT ON AN EXPANDING MARKET TO MAINTAIN OUR EXPORTS TO KOREA IN THESE PRODUCTS BUT MUST COMPETE TO RETAIN OUR POSITION. GENEROUS CREDIT AVAILABILITY APPEARS TO BE ONE OF OUR PRINCIPAL LINES OF DEFENSE AND SOME COMBINATION OF PL-480 AND CCC CREDIT, GIVING ATTRACTIVE INTEREST AND MATURITIES, THE NECESSARY WEAPONS. CASH SALES WITHOUT CREDIT WILL STILL CONSTITUTE VAST BULK OF AGRICULTURAL PRUCHASES.

4. NAM'S REFERENCE TO THE NEED FOR INCREASED WON REVENUES FOR DEVELOPMENTAL PURPOSES SHOULD NOT BE LIMITED OFFICIAL USE

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OVERLOOKED. RISING MILITARY EXPENDITURES--NOW AT 6.6 PERCENT OF GNP-- ARE EATING INTO THE BUDGET AT A TIME WHEN NEW INVESTMENTS IN SOCIAL AND INFRASTRUCTURE NEEDS ARE BECOMING INCREASINGLY IMPORTANT TO MEET THE RISING EXPECTATIONS OF THE KOREAN PEOPLE. PROGRESS GENERATES THE REQUIREMENT FOR CONTINUED PROGRESS AS SOCIAL AND PERSONAL NEEDS EXPAND. INCREASES IN ECONOMIC DEVELOPMENT EXPENDITURES UNDER THE PROPOSED 1978 BUDGET (SEOUL 8303) AT 13 PERCENT ARE THE SMALLEST IN RECENT YEARS AND SOCIAL DEVELOPMENT OUTLAYS AT 23 PERCENT ARE ALSO BELOW NORMAL. PL-480 CONCESSIONAL CREDITS MAY STILL BE JUSTIFIABLE AS NEEDED FOR BUDGETARY SUPPORT AS THE WON PROCEEDS WOULD BE CHANNLED DIRECTLY INTO PROJECTS NECESSARY FOR THE COUNTRY'S CONTINUED ECONOMIC GROWTH. REQUIREMENTS CANNOT BE MET BY DEFICIT SPENDING WHICH WOULD RESULT IN SKYROCKETING INFLATION BECAUSE OF THE PARTICULAR MONETARY PROBLEMS FACINING THE COUNTRY AT HTIS TIME. AS ECONOMIC GROWTH CONTINUES, THE TAX BASE CAN BE EXPANDED BUT THIS REQUIRES TIME.

5. THE ROKG IS COGNIZANT OF ITS MONETARY PROBLEMS AND THE OUTLOOK FOR IMPORT LIBERALIZATION LOOKS BETTER

THAN EVER. REPORTS ARE THAT THE EPB IS PROJECTING
A \$900 MILLION TRADE DEFICIT IN 1978 BY LOWERING THE
EXPORT TARGET \$200 MILLION TO \$12.5 BILLION AND INCREAS-
ING IMPORTS BY \$300 MILLION TO \$13.4 BILLION. THIS CAN
ALTERNATE THE MONETARY PROBLEM BUT NOT THE GOVERNMENT'S
LOCAL CURRENCY FINANCING NEEDS.

6. IN SUMMATION, IT APPEARS TO US THAT MANY US
INTERESTS--COMMERCIAL, ECONOMIC, POLITICAL--WOULD
BE SERVED BY RESPONDING IN A POSITIVE MANNER TO NAM'S
LETTER.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, AGREEMENTS
Control Number: n/a
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Sent Date: 01-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977SEOUL10122
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770445-0827
Format: TEL
From: SEOUL
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t197712104/aaaadkrn.tel
Line Count: 127
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Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d3f0cefb-c188-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 SEOUL 10049
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 112026
Secure: OPEN
Status: NATIVE
Subject: ROKG REQUEST FOR LONG TERM PL-480 AND CCC CREDIT AGREEMENTS
TAGS: EAID, EAGR, KS
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/d3f0cefb-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009